HOUSING MARKET OUTLOOK

Canada Mortgage and Housing Corporation

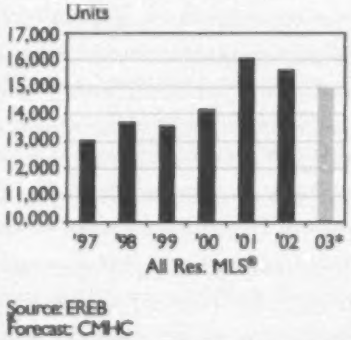
Housing Market Overview

Demand To Slow in Second Half of 2003

Edmonton's housing markets will experience another busy year in 2003 although the tempo will drop back from last year's frantic pace. The economy will remain strong this year, with energy sector capital investment and high activity in the exploration and field-service industries underpinning the outlook. On the downside, global uncertainties could undermine consumer confidence and mortgage rates appear poised to head higher in the second half, assuming a strong recovery south of the border.

Edmonton's existing homeowner market will continue to experience a cooling trend which began in the second half of 2002. The double-digit price increases in 2002 were a result of a market imbalance - too many buyers chasing after too few listings. This situation has moderated in the spring of 2003, with a better balance between supply and demand. This will help temper the strong upward trend in prices. Sales will drift lower as higher mortgage rates crimp demand somewhat but overall it will be an active year for the city's Realtors.

Chart 1
Sales Drift Lower in 2003



Source: EREB
Forecast: CMHC

Single-detached home builders across Metro experienced their best year ever in 2002 - eclipsing the old benchmark set in 1978 by 658 units. Demand was fueled by a combination of low mortgage rates, a strong economy and a thin standing inventory of both new and existing (resale) homes. As 2003 progresses, expect new single-detached construction to throttle-back as builders see their unsold inventories start to creep upward. Increased competition from higher numbers of resale homes for sale combined with an expected rise in mortgage rates by the summer will cool demand. Multiple starts last year hit the highest output in two decades. CMHC expects multi-unit activity to fall back slightly in the months head as completions outpace absorptions, resulting in a rise in the unoccupied inventory - in particular new apartments.

Rental markets experienced higher vacancies in 2002 in reaction to increased new supply entering the market. Despite the improvement in supply, rent levels still outpaced inflation. In 2003, vacancies remain on the upswing as apartment completions rise. Higher vacancies will help to slow rent increases and also put a damper on new rental construction in the second half of the year.

EDMONTON
SPRING 2003

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Resale Market

Improved Market Balance in 2003

In the first half of 2002, Edmonton's residential resale market began to overheat as rapid sales and a shortage of inventory caused both house and condo prices to soar. This year, we expect activity to pull back due to the rising costs of home ownership associated with continued albeit moderating price increases coupled with rising mortgage rates - particularly in the second half of the year.

A combination of low mortgage rates, a growing economy and low new home inventories helped to fuel demand for existing homes last year. With demand outpacing supply, the market favoured sellers - pushing average listing periods to record lows in the second quarter. However, double-digit price increases and a shortage of listings prevented sales from reaching the record level achieved in 2001.

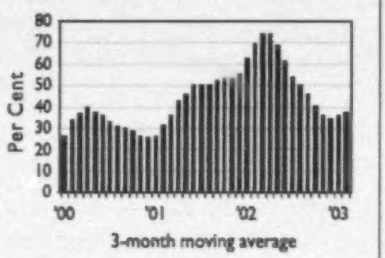
EREB's average residential resale price set a new record in 2002, up nearly 13 per cent from the previous year to $150,258. With market balance favouring sellers in a big way in the first half of the year, prices responded accordingly. But as the year progressed, these rapid price increases started to choke off demand as a growing number of potential buyers had trouble finding product in a price range they could afford.

Chart 2 shows the trend line for the EREB's sales-to-active listings ratio (SALR) - which averaged close to a record-level of 70 per cent during the first half of 2002. As the year progressed, however, market balance improved with the SALR reaching 35 per cent by year-end. CMHC uses the 30 per cent threshold for the SALR as one indicator of when a balanced market begins to favour sellers. While the existing home market still favoured the seller during the first quarter of 2002, sales have continued to moderate and, with active listings on the rise, a more balanced market is anticipated this year.

During the second half of 2002, market conditions improved for buyers as the pace of sales started to slow and active listings rose correspondingly. Residential sales in the first two months of 2003 showed a continuation in the cooling trend. In January and February 2003, sales of all types declined by nearly eight per cent from the previous year and new listings continued to increase at a healthy pace. These trends combined to bring about the 73 per cent increase in active listings this February.

Table 1 compares the annual sales and price statistics for single-detached homes sold on the MLS® during 2001 and 2002 within the Edmonton City districts, and the larger suburban communities. Following record level of sales in 2001, single-detached MLS® sales fell by nearly eight per cent last year. The decline in sales occurred largely across the board, with the exception of Leduc City, and Central Edmonton - where prices tend to run below average. However, both communities saw big price jumps nonetheless as the supply of lower-priced units dried up. While sales declined in all the remaining centers, Sherwood Park and Edmonton's North Central district faced the largest reduction with a respective 14 and 13 per cent declines in single-detached sales - largely due to a shortage of supply.

Chart 2
Sales-To-Active Listings Ratio



Source: EREB, Feb. '03

Single-detached sales in the first two months of 2003 declined by 11 percent across Metro Edmonton. The pull-back in demand has resulted from consumer reaction to the rising costs of ownership stemming from the combined impacts of much higher prices and an inching-up of mortgage rates.

Price Increases Back Into Single-Digit Range

Average sale prices reached record levels in 2002 in response to the growing imbalance between demand, on the one side, and the supply of active listings on the other. Sale prices for a typical single-detached unit jumped by nearly 14 per cent on the MLS® by the end of the year, reaching $171,599. House prices cannot increase indefinitely at faster rates than home buyer incomes and

Table 1
MLS® Single-Detached Units
January - December (% chg 2001/2002)

	Sales			Average Price ($)			Median Price ($)		
	2001	2002	%chg	2001	2002	%chg	2001	2002	%chg
Northwest	452	413	-8.6	120,899	143,970	19.1	122,500	140,000	14.3
North Central	1,442	1,258	-12.8	144,110	165,887	15.1	138,000	159,900	15.9
Northeast	610	586	-3.9	122,308	139,590	14.1	122,700	138,500	12.9
Central	585	616	5.3	86,899	105,542	21.5	82,500	98,700	19.6
West	1,161	1,063	-8.4	183,533	203,634	11.0	165,000	183,000	10.9
Southwest	1,235	1,119	-9.4	207,135	237,583	14.7	190,000	217,890	14.7
Southeast	1,668	1,506	-9.7	140,293	163,200	16.3	135,500	158,000	16.6
St. Albert	872	764	-12.4	184,897	209,959	13.6	174,900	196,000	12.1
Sherwood Park	908	777	-14.4	177,210	203,365	14.8	167,000	193,000	15.6
Leduc	242	247	2.1	142,129	163,455	15.0	135,000	155,000	14.8
Spruce Grove	279	271	-2.9	140,085	161,121	15.0	134,000	155,000	15.7
Ft. Saskatchewan	181	165	-8.8	140,006	152,779	9.1	131,500	146,200	11.2
All EREB areas	**11,258**	**10,411**	**-7.5**	**150,874**	**171,599**	**13.7**	**142,000**	**163,000**	**14.8**

Source: EREB

interest rates are not expected to remain at their historical lows. As such, a slow down in price growth is in the cards in 2003. In the first two months of this year single-detached average resale prices increased by eight per cent. With demand pressures easing and the level of inventory improving, expect prices increase to remain below the double-digit level for the remainder of the year.

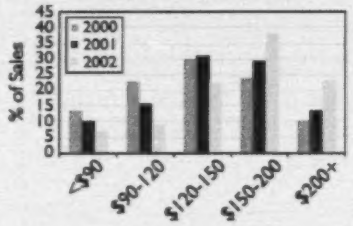
Much of last year's price gains were associated with a shift in the sales mix, with fewer lower-priced units being offered to the market. As shown in Chart 3, sales of single-family homes priced under $150,000 substantially decreased in favour of units priced over the $150,000 range. In 2001, units over $150,000 captured 43 per cent of sales. Last year that number jumped to 62 per cent.

While the overall supply of units for sale this spring is up from the same time last year, single-family homes priced under $150,000 still remain in short supply. Buyers looking for homes priced below this benchmark will increasingly have to consider townhouse and apartment condominiums as a more affordable alternative.

Demand For Condos Remains Strong

Demand for resale condominiums continued to rise in 2002, with sales reaching 4,194 units for a 10.6 per cent gain over 2001. During the first two months of 2003, sales growth continued to climb - up by just over three per cent over January-February 2002. The supply of listings in the

Chart 3
Homes Priced Over $150,000 Grab Bigger Market Share



Source: EREB

condominium market improved in the 1st quarter of 2003 thanks to an influx of new listings. However, the supply of product priced under $100,000 remains tight across the region.

Condos typically provide an affordable housing option for many first-time buyers. With last year's surge in both apartment rents and house prices, the appeal of moderately priced condominiums has grown. While prospects remain positive for sales in 2003, rising prices and higher monthly carrying costs (including condo fees) will present a barrier for many buyers and impede sales growth this year.

By the end of 2002, average condo prices on the MLS® increased by 18.5 per cent to $109,726 and further gains of approximately seven per cent are expected this year. As was the case in 2001, sales in units priced over $100,000 have grown at the expense of lower-priced condos under $80,000. While overall active listings were higher in March compared with the same month last year, listings under $80,000 were down substantially. Prospective buyers will be forced to move up to a higher price range and this will put a brake on demand. New units entering the market priced under $100,000 remain elusive due to the high costs of new construction.

Housing Less Affordable in 2003

Following a respite in 2001, the monthly costs associated with home ownership increased in 2002. Although mortgage rates declined slightly last year, on annual average basis, the dampening effect on debt servicing costs was not enough to shield people from the impact of rising house prices. The monthly carrying costs of a typical house sold on the MLS® increased by eight per cent last year due to a 13 per cent jump in average house prices. Higher utility costs didn't help either.

The outlook for affordability in 2003 remains unfavourable. While we do not expect another round double-digit house price increases, buyers will still have to pay more on a monthly basis for that same "average" MLS® house. As mortgage rates start to climb, the effects of rising prices will be amplified and affordability will further erode. For example, even if prices stayed the same as they were by the end of 2002, the increase in interest rates will cause a four per cent increase in carrying costs. Buyers will pay near eight per cent more, on average, in typical carrying costs (PI) in 2003 and this will put a damper on demand as the year progresses.

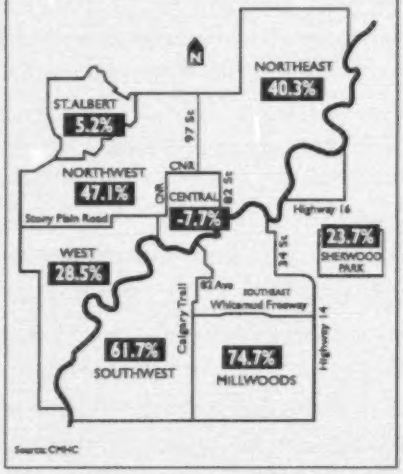
New Home Market

Fewer Starts in 2003

In 2002, total housing starts in Greater Edmonton reached the highest levels since the record year of 1978. At 12,581 units, starts surpassed the previous year's count by 60 per cent. Record levels were achieved for single-detached starts due to the shortage of inventory in the existing market, low mortgage rates, and steady job growth. Multi-unit starts hit the highest level in 20 years thanks to bullish investor sentiment and strong demand for both rental and home ownership product.

In the first three months of 2003, total housing starts fell by 18 per cent from the 1st quarter of 2002. The continued strength in single-family starts was countered by a major pull-back in multi-unit construction. With interest rates still at very low levels, the outlook for the upcoming spring selling season is still very good. However, the growth witnessed in the 1st quarter's single starts will not be sustainable throughout the remainder of 2003. Units in progress this March were substantially higher than the same time last year and inventories are set to rise as completion levels exceed absorptions this spring. As well, labour shortages and rising land costs have pushed up average new home prices, which, combined with higher mortgage rates this summer, will cause demand to soften. Going forward, a modest slow down in job growth, rising inventories on the resale front combined with the expected higher carrying costs will combine to reduce demand for new homes.

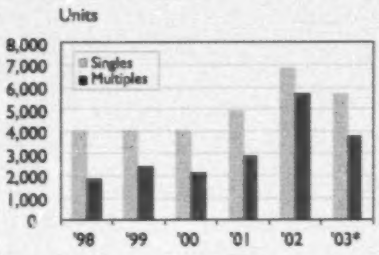
SINGLE STARTS
Hit Record Level in 2002
January - December (% chg 2001/2002)



Source: CMHC

Chart 4

Housing Starts Throttle-Back in 2003



Source/* Forecast: CMHC

Edmonton City accounted for 61 per cent of the Metro's new single-detached homes in 2002, up from 57 per cent in the previous year. Single-detached starts within Edmonton City increased by 48 per cent last year, contributing to the record levels of single starts achieved across the region. Strathcona County and St. Albert, are the largest suburban communities within the Metro. In 2002, St. Albert single starts increased by four per cent, while Strathcona County's single starts were up nearly 24 per cent, reaching 912 units. Sturgeon County (+45%) and Fort Saskatchewan (+43%) also enjoyed significant gains over 2001- representing increases of 42 and 32 units respectively.

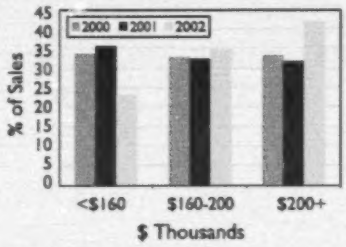
Within Edmonton City, the Northwest area held the largest market share in 2002, at 29 per cent of the city's new single-detached construction. However, the Southeast enjoyed the distinction of being the fastest growth area within Edmonton City for new singles, with gains of nearly 75 per cent over 2001. Both areas are popular as they provide sizable volumes of new singles priced under $200,000. The pace of activity was also strong in the Southwest area, with nearly 62 per cent growth over 2001. While product mix was generally more upscale than average in the Southwest, lot supply was generally better than in some other districts due to the high volume of new residential lots constructed in this district during 2001 and 2002.

The average price of a typical new home increased by nearly nine per cent in 2002 to $204,921, almost three times the increase CMHC observed in the previous year. In the face of rising costs for land, labour and materials, builders pushed up prices to protect their margins. As seen in the existing market, the upward movement in average price has expressed itself via changes in the sales mix. Despite house size remaining fairly constant, on average across Metro, units priced under $160,000 saw their market share decline from 36 per cent in 2001 to only 23 per cent in 2002. Meanwhile, units priced over $200,000 captured 42 per cent of new home sales last year, up from 32 per cent in 2001.

Despite last year's big price increases for new homes, the double-digit increase in

Chart 5

New Single-Detached Absorptions by price range



Source: CMHC

the price of a typical resale home allowed the price gap between the average new and existing single-detached unit to fall for the second year in a row to $33,322. After averaging close to $43,700 during the period 1998-2000, the price gap fell by over $10,000 over the past two years. This drop in the difference between a typical new versus existing home provided the home builders with a marketing edge as well as a psychological boost. This situation is expected to reverse in 2003, however, with new home costs increasing slightly faster than average resale prices, causing the price gap to move up to around $39,500.

As shown in Table 2, absorptions of new single-detached homes experienced healthy gains in 2002, rising by 15 per cent across Metro to 5,407 units. Completion levels surged in the first two months of 2003

Table 2

New Single-Family Absorptions by Area

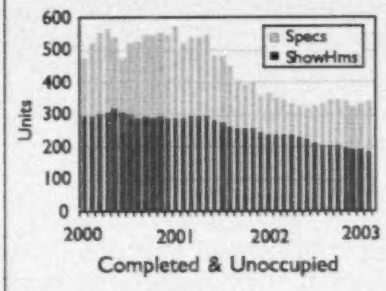
January - December (% chg 2001/2002)

	Sales			Average Price ($)			Median Price ($)		
	2001	2002	%chg	2001	2002	%chg	2001	2002	%chg
North Central	151	129	-14.6	161,197	200,958	24.7	155,000	170,200	9.8
Northeast	194	278	43.3	165,510	175,703	6.2	159,117	167,450	5.2
Northwest	773	878	13.6	185,019	189,262	2.3	176,800	179,900	1.8
South Central	31	33	6.5	260,732	268,706	3.1	217,000	249,500	15.0
Southeast	436	553	26.8	174,510	195,543	12.1	166,500	177,400	6.5
Southwest	613	744	21.4	231,852	246,008	6.1	209,900	222,713	6.1
West	393	551	40.2	192,234	215,806	12.3	175,000	195,900	11.9
Total Edmonton City	**2,591**	**3,166**	**22.2**	**193,482**	**208,408**	**7.7**	**178,200**	**188,800**	**5.9**
Fort Saskatchewan City	63	74	17.5	193,208	219,364	13.5	183,900	205,550	11.8
Leduc City	86	110	27.9	174,872	189,628	8.4	172,950	188,650	9.1
Parkland County	195	236	21.0	135,528	174,327	28.6	126,213	162,990	29.1
Spruce Grove City	141	155	9.9	136,841	162,485	18.7	134,518	151,705	12.8
St. Albert City	368	368	0.0	214,174	243,017	13.5	205,000	221,350	8.0
Strathcona County	808	761	-5.8	203,609	210,867	3.6	184,500	200,000	8.4
Total Rural	2,120	2,241	5.7	183,124	200,002	9.2	170,000	189,000	11.2
Edmonton CMA	**4,711**	**5,407**	**14.8**	**188,821**	**204,921**	**8.5**	**175,000**	**189,000**	**8.0**

Source: EREB

Chart 6

Low Single-Detached Inventory



Source: CMHC, Feb. 03

by almost 70 per cent and absorption rates largely kept pace, keeping inventories in check. But can these absorption rates continue to hold their own against a surge in completions expected this spring? Our view is that rising prices, increased competition from a growing inventory of resale homes coupled with an inching up of interest rates will combine to erode new home sales in the months ahead.

There were 348 completed and unoccupied single-detached units available across Metro in February, three units less than the same time last year. However, when show homes are removed from the count a different picture emerges. In February 2002, the inventory of 352 units consisted of 236 show homes and 116 spec units. This February, the number of show homes was down by 15 per cent to 200 units while the number of spec homes for sale increased by 28 per cent from last February to 148 units.

With spec inventory on hand still low by historic standards and many orders still on the books, we expect the first half of the year to largely match last year's record pace. However, the number of units in the pipeline in February was 63 per cent higher than units in progress in February 2002. As 2003 progresses, expect new single-detached construction to throttle-back as builders see their unsold inventories start to creep upward. This said, the number of new single-family starts will remain high in 2003 when compared with the volumes produced in years prior to 2002's record-setting pace.

Land Supply Improves For Builders

In our Fall 2002 report, we noted that the supply of building lots across Metro was down at mid-year by 13 per cent from June 2001, as developers underestimated the high volume of single-detached construction in the first half of the year. This situation rapidly reversed in the second half of 2002, as developer production exceeded builder demand across Metro. According to the Doesburg Report, produced quarterly for Edmonton's Urban Development Institute (UDI), there were 8,411 vacant single-family lots across the Capital region at year-end compared with 5,785 vacant lots reported in December 2001. Using the three-month average absorption rate of 589 units per month reported at year-end, the December lot inventory reported by Doesburg represented a 14.3 month supply compared with the 9.1 month supply we estimated at mid-year 2002.

On the heels of a 6.3 per cent increase in 2001, the price of a standard single-detached residential lot in Edmonton rose by 7.6 per cent in 2002 to an average of $59,127, according to data from CMHC's monthly market absorption survey. Rising costs for labour, materials and replacement land will contribute to further increases in the 8-10 per cent range despite the temporary over-supply this spring.

Multi-Unit Starts Pull Back in 2003

During 2002, multiple starts increased by 98 per cent over the previous year to 5,721 units. This represents the best performance for multi-unit starts in 20 years. While gains occurred in both the rental and condominium tenure, apartment starts were exceptional in 2002 thanks to brisk take-up of new units, particularly in Edmonton's downtown. Strong price increases for existing condos, tight apartment vacancies and rapidly rising rents presented developers and investors with potent reasons to construct new apartment buildings last year. Edmonton's real estate market has also benefited from large amounts investment from REITs, pension funds, institutions, public companies and private investors alike. This should be no surprise considering the dismal state of the equity markets across North America in recent years. Going forward, we expect to see a slowdown in new construction, as absorption rates fail to keep pace with rising completion levels this summer.

In 2002, 81 per cent of Metro's multiple starts occurred within Edmonton City. This proportion was up from the 67 per cent market share that occurred in 2001, largely due to the strong apartment activity in the Downtown. In 2002, communities such as St. Albert, Spruce Grove, and Stony Plain also experienced large increases in multi-unit starts. In contrast, Leduc City and Strathcona saw fewer new multiples in 2002.

Multiple unit absorptions ended 2002 on a strong note, helping to move unoccupied inventories downward. New multiple unit inventories stood at 453 units at year-end, down 11 per cent from December 2001. Inventories remained low to the end of February, as absorption levels slightly outpaced completions. However, 4,975 multiple units were under construction across Metro in February, more than double the number in progress during the same time last year. Multi-unit completions in the first two months of the year lagged January and February of 2002 by 47 per cent. We expect this situation will turn around rapidly in the months ahead. Developers will be keenly watching to see how well absorptions keep pace with the supply of new units being completed. CMHC expects inventories to move higher this spring, causing multi-unit starts to remain below last year's levels.

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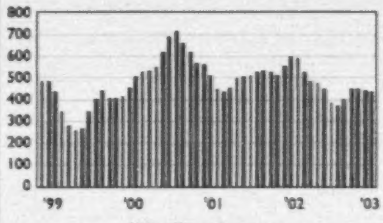
Chart 7
Unabsorbed Multi-Unit InventoryLow in 1Q03



Source: CMHC, Feb'03

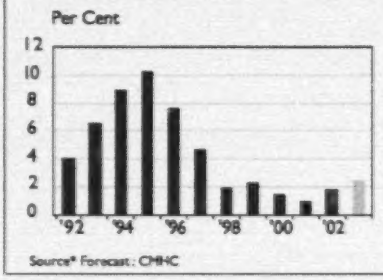
Rental Market

Vacancies Rise on Increased New Supply

The apartment vacancy rate in Metro Edmonton increased to 1.7 per cent in October 2002, up from 0.9 per cent in October 2001. The vacancy increase in 2002 occurred largely in response to rising rental unit construction levels. In addition, factors such as low mortgage rates and rising rental costs may have boosted vacancies, as many renters turned to home ownership over the 12-month period ending in October.

When CMHC carries out the next Rental Market Survey in October 2003, it is expected that vacancy rates will have risen further across Metro. With absorptions failing to keep pace with the volume of units emerging onto the market, vacancy rates will increase to near 2.5 per cent in October. However, this vacancy is still low by historical standards. Firm demand for Edmonton's rental units will exist into 2004 thanks to a growing economy, in-migration and the rising costs of home ownership associated with rising prices and higher mortgage rates.

Chart 8
Apartment Vacancies Tight



Source* Forecast: CMHC

Rents Keep Rising

Among Canada's metropolitan areas (CMAs), Edmonton experienced the strongest annual back-to-back increases for average apartment rents between the October 2000 and October 2002 CMHC surveys. Apartment rents reached $631 across Edmonton CMA in October 2002, an increase of nearly eight per cent over the previous year. Meanwhile, row rents increased by 7.5 per cent or $53 per month. The increase in rents has occurred despite growing competition from newly-completed apartments. Landlords have reaped the benefits of the tight markets but also raised rents to cover rising operating costs and to pay for repairs and renovations. In addition, home ownership costs jumped in 2002 and this allowed landlords to seek another round of large rent hikes.

CMHC expects average rents across Metro to rise by six per cent over the October 2002 survey results. Increased competition from newly completed apartments, combined with a moderation in the price trend for ownership housing, will place modest restraints on rent increase this year. While higher mortgage rates and increased prices will boost the cost of home ownership in 2003, inventories of both new and resale homes are also expected to increase. As such, landlords will still need to be wary of losing tenants to home ownership.

Rising vacancies will also temper landlords' aspirations for another round of big rent increases. However, new apartments entering the market tend to be priced well above the average for existing units, muting the downward effect on average rents from the new competitors. Costs for renovations and other improvements are also increasing and utility costs will remain high as well. For these reasons rent increases will still be well above general inflation.

Going into the spring, most of Edmonton's unoccupied new multi-units are rental apartments, with the lion's share found in the Downtown. While the number of newly-completed and unabsorbed apartments was down from last February, so were completion levels. Increases in rental apartment vacancies will come from several factors: substantial construction of new rental properties, conversion of a number of buildings to rental apartments, and investors purchasing individual condominium units (both newly constructed and units converted from non-residential) for rental purposes. This will put a brake on new apartment activity as the year progresses.

New Condo Market Very Active

At 3,204 units, condo starts increased by over 100 per cent across Metro in 2002. Approximately two-thirds of the units were apartments, as builders responded to strong demand and rapidly escalating prices for existing units. With strong sales and low active listings in the resale market for most of 2002, inventory levels for new condominiums have remained low. However, as active listings rise in the resale market and the affordability impacts of higher mortgage rates take hold, we expect new condo activity to slow down in 2003.

The price shifts in the new condo product mix observed in 2001 (reported in our Spring 2002 report) largely continued in 2002. Product (both row and apartment) priced over $140,000 saw its market share increase to 52 per cent compared with 48 per cent in 2001. The new condo market has very little to offer buyers searching for units priced under $100,000. Due to the rising costs of construction, these smaller typically downtown apartment units are still being produced in large numbers but are now found largely in the $100,000-$120,000 price range.

Housing Now

Monthly HOUSING NOW CMA reports include topical analysis of economic and demographic developments affecting local housing markets and statistics for starts, completions, under construction, absorptions and supply by tenure. This concise report will give you a monthly analysis of the latest local data.

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Mortgage Rate Outlook

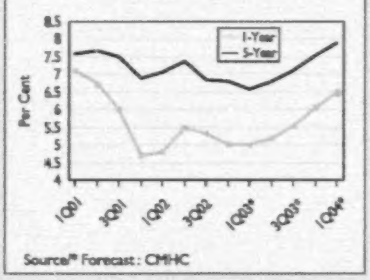
Mortgage Rates On The Rise, But Still Low By Historical Standards

Short-term mortgage rates move in tandem with the prime rate while mid- and long-term mortgage rates vary in response to the cost of raising funds in the bond markets. Mortgage rates are forecast to rise as interest rates head up this year and next.

Spreads between mortgage rates and comparable bond yields have remained at 200-250 bps in the last couple of years, providing lenders with some room to negotiate discounts ranging 50-150 bps from the posted rates. These spreads are likely to persist in the near term. The one, three and five-year closed mortgage rates are expected to be in the 5.00-6.25, 6.00-7.25, and 6.50-7.75 per cent range respectively this year.

Chart 9

Mortgages Rates Inch Higher In 2003



Source/* Forecast : CMHC

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Economic Overview

Outlook Remains Bright Across Region

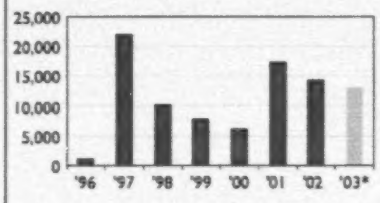
Kyoto uncertainties and tensions in the Middle East continue to cloud the outlook for investment across the province, with some companies this past winter announcing deferrals of projects as they deal with the uncertainty. However, issues related to security of energy supply in North America will continue to make the oil sands look like a good investment in the longer term. Increased energy-related expenditures are expected in 2003, with stronger drilling activity associated with high world prices for both oil and natural gas. Alberta's forestry sector is still feeling the impacts of the softwood lumber dispute with US-imposed countervail and dumping duties. And while the threat of a protracted drought hangs over the ag sector, winter snow cover in many areas of North Central Alberta has been the best since 1989.

In 2002, job growth across the Capital region slowed from the torrid 3.5 per cent growth rate recorded in 2001. Nonetheless, the region managed to generate over 14,000 new jobs representing a gain of 2.8 per cent. The slowdown came largely in the service sector where increases in health care and social assistance positions were countered by consolidations in wholesale trade, transportation and warehousing. On the goods-producing side, employment growth largely mirrored the 2001 numbers, with manufacturing and construction doing the heavy lifting. Construction permit values for the region's three largest municipalities combined increased by 26 per cent in 2002 thanks to a 57 per cent jump in residential activity. In 2003, we expect job growth to throttle-back to the 2.5 per cent range, representing an increase of about 13,000 jobs.

Capital investment has been driving the local economy in the past 2-3 years, particularly investment in oil sands, pipelines, petro-chemicals and utility. High oil and gas prices have pumped huge amounts of cash into the energy sector in the past year and company balance sheets have never been stronger. Petro-Canada plans to spend over $4 billion over the next 6-7 years to convert its Strathcona refinery to process bitumen. Imperial Oil meanwhile will spend $500 million over four years to upgrade its Strathcona refinery to produce low sulphur gasoline. Also the $1 billion Bison pipeline linking oil sands operations in Wood Buffalo with Strathcona County gets underway this year. Epcor, the city-owned utility, has started a $400 million expansion to its Genesee power plant. TransAlta Corp - its partner in this project - also has a $1.8 billion plan on the books (has received regulatory approval) to expand its Keephills power plant - depending on economic conditions over the next few years.

Chart 10

Steady Job Creation 2003



Annual Ave. Employment Growth

Source: Statistics Canada
*Forecast: CMHC

Local infrastructure spending will include $145 million to upgrade and expand Edmonton's sewer system, $108 million expansion (5-year project) of Edmonton's LRT system, $220 million Anthony Henday Drive - Phase 1 (4-year project to 2006), the $83 million Phase 3 expansion (Central Hall) of Edmonton International airport. The University of Alberta will receive $120 million over five years from the federal and provincial governments for the creation of the National Institute for Nanotechnology.

The retail sector is a big driver in the local economy and it enjoyed a banner year in 2002 in terms of sales - which grew by 8.1 per cent to $12.1 billion. Growing employment combined with rising disposable incomes helped to bolster retail sales in 2002. Consecutive years of strong housing starts and residential sales have created strong demand for retailers selling anything to do with the home. Edmonton City Centre mall is in the process of a $30 million face lift. Meanwhile, South Edmonton Common is becoming one of the preeminent big-box locations in Western Canada.

Migration into Edmonton is expected to remain fairly high in 2003, as the Capital region's ability to create jobs makes it attractive to Canadians seeking employment opportunities. Edmonton will continue to have one of the lowest unemployment rates among all Metro areas and this will attract workers from other parts of Canada. Downside risk to the outlook comes from a protracted war in Iraq which could have negative impacts on consumer confidence and demand for big ticket items such as housing.

FORECAST SUMMARY

EDMONTON HOUSING MARKET OUTLOOK

MARCH 2003

	2000	2001	% Chg	2002	% Chg	2003*	% Chg
RESALE MARKET							
MLS®[1] active listings (June)	44,119	3,378	-18.0%	2,519	-25.4%	3,500	38.9%
MLS® Sales							
Single-family	9,978	11,258	12.8%	10,411	-7.5%	9,900	-4.9%
Condominium	3,173	3,792	19.5%	4,194	10.6%	4,200	0.1%
Total	14,189	16,079	13.3%	15,619	-2.9%	15,000	-4.0%
MLS® Price							
Single-family	139,966	150,874	7.8%	171,599	13.7%	182,500	6.4%
Condominium	87,762	92,592	5.5%	109,726	18.5%	119,000	8.5%
Average	124,203	133,441	7.4%	150,258	12.6%	160,000	6.5%
NEW HOME MARKET							
Complete and unoccupied (Dec)							
Single-family	554	370	-33.2%	318	-14.1%	400	25.8%
Multiple-family(semi,row,apt)	594	507	-14.6%	453	-10.7%	600	32.5%
Start							
Single-family	4,072	4,959	21.8%	6,860	38.3%	5,700	-16.9%
Multiple-family	2,156	2,896	34.3%	5,721	97.5%	3,800	-33.6%
Total	6,228	7,855	26.1%	12,581	60.2%	9,500	-24.5%
Average New House Price							
Single-family	183,512	188,821	2.9%	204,921	8.5%	222,000	8.3%
RENTAL MARKET							
Vacancy rate (Oct)	1.4	0.9		1.7		2.5	
Rental rate, 2 bdrm (yr/yr % chg)	4.5	8.8		8.4		6.0	
FORECAST ASSUMPTIONS							
Mortgage rate (3 yr term)	8.17	6.88	-1.3	6.28	-0.6	6.43	0.1
Mortgage rate (5 yr term)	8.35	7.41	-0.9	7.02	-0.4	7.01	-0.0
Employed	487,950	505,150	3.5%	519,350	2.8%	532,350	2.5%
Employment growth (# jobs)	6,000	17,200		14,200		13,000	
Unemployment rate	5.3	4.9		5.3		5.2	
Net-migration (May 1-April 30)	8,409	8,154		10,500		9,000	

* *CMHC Forecast*

Source: CMHC, Statistics Canada, Edmonton Real Estate Board

1 Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association.

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